Ownership transfer in family businesses prompted by tax reform

Marcela Ramírez-Pasillas

(Assistant professor and Director of the Master in Business Management)
Tecnológico de Monterrey Mexico, Carr. Lago de Guadalupe km 3.5, Col. Margarita Maza de Juárez, Atizapán de Zaragoza, CP. 52926, Estado de Mexico, Mexico,
Tel: +52 55 5864 5664, E-mail: mrpasillas@itesm.mx.

and

Leif Melin

(Professor and Director of the Center of Family Enterprise and Ownership, CEFEO)
Jönköping International Business School, Box 1026, SE-551 11, Jönköping, Sweden,
Tel: +46 708 856446, E-mail: leif.Melin@ihh.hj.se.

Abstract

About six years ago the Swedish government initiated an important tax reform in order to support business development, including business transfers. This paper explores particularly ownership transfer in family businesses, in light of the tax reform. To do so, this paper develops a pilot study conducted through 30 telephone interviews with family business owners, and five in-depth case studies of ownership transfer processes in family businesses. In order to determine family business practices that promote and strengthen the ownership transfer process, we address questions that family business owners, advisors and politicians frequently ask. The study shows that the abolition of gift, inheritance and wealth taxes motivates family businesses to work more actively towards ownership transfers. The abolition of taxes stimulates families to go through an ownership transfer, partly because they can increase their wealth with significantly less tax consequences. Yet even if there are no gift, inheritance and wealth taxes, it is important that family businesses prepare for ownership transfers. This paper presents family business practices associated to the creation of ownership stability, financial stability, fairness, emotional associations and knowledge creation.

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1. Introduction

About six years ago the Swedish government initiated an important tax reform in order to support business development, including business transfers. Gift and inheritance taxes were first abolished by the government in 2004 and thereafter wealth taxes were abolished in 2007. The Swedish government made these decisions in order to stimulate and increase the volume of successful ownership transfers of businesses. These decisions benefited family businesses; these businesses have great social and economic importance in Sweden. However, many of these businesses are owned and run by people born in the 1940s. Family members owning these businesses will transfer their ownership to the next generation in the near future (Nutek B 2004).

With ownership transfer, we refer to a process by which a company's ownership is conveyed from present owners to their children, employees, external entrepreneurs or companies. This ownership transfer can occur via inheritance, gift or sale. However, ownership transfer is a complex development process in family businesses that requires continuous dialogue, many different preparations and difficult decisions that are needed in order to arrive at the best solution for ownership transfer. Furthermore, the family businesses and families that avoid, delay or postpone the transfer of ownership are likely to be affected significantly, ranging from stalled strategic development of the company to its shutting down. It is therefore important to transfer ownership in ways that can lead to organizational and strategic renewal of family businesses.

This article is thus concerned with understanding ownership transfer in family businesses, in light of the tax reform. We place special attention on family business practices that promote and strengthen the ownership transfer process. Relying on a field study of ownership transfer after tax reform, we address questions that family business owners, advisors and politicians frequently ask. These questions include the following:

- *Has the tax reform enhanced ownership transfer?*
- *When should an ownership transfer occur? What should be done?*

- *What does ownership transfer mean to the overall succession in family businesses? Is it a mere technical – legal and tax-related - matter?*
- *Who should be involved in the ownership transfer?*
- *What are the alternative solutions for ownership transfer?*
- *Should parents merely give away their business? Should children buy the family firm?*
- *How can an ownership transfer process be achieved with professionalism and good emotions?*
- *How can we avoid conflicts?*
- *How does the older generation motivate the younger generation to become owners?*
- *How do we gather knowledge to integrate and implement a good ownership transfer solution?*

2. Succession in family businesses

Succession has been recognized as a relevant and important process for sustaining a family business across generations. As a process, succession is commonly associated with leadership transfer, focusing on the change of CEO and board of directors in a family business. Leadership transfer refers to a process by which managerial control of the business is conveyed from one generation to the next. Successful leadership transfer is vital for the survival of the firm across generations. The successor's ability to acquire the predecessor's key knowledge and skills, as well as commitment to the family firm, is central in a leadership transfer. However, we argue that the process of ownership transfer is equally important to that of leadership transfer. In succession research, the emphasis on ownership transfer process is still rare. The ownership transfer process is as complex and time-consuming as the leadership transfer process. The ownership transfer process in family businesses differs from other types of firms. Family dynamics affect the entire company and the transfer process. Families and family businesses often exhibit a high degree of continuity in management style and core values; this continuity is something that challenges the ownership transfer process. This process is crucial process because of several reasons:

- *First*, family needs to guarantee the ownership stability of the firm in order to assure its survival across generations.

- *Second*, an ownership transfer process is often associated to a larger number of family members that are economically dependent of and emotionally bonded to the family business.

- *Third*, family-business owners rely upon the firm for all or part of their income. Thus, retirement plans go in hand with the ownership transfer process.

- *Fourth*, the abolition of gift, inheritance and wealth taxes influences ownership transfer; this should be considered in ownership transfer preparations and solutions.

3. Ownership situation of family businesses in Sweden

In Sweden many family businesses face today an ownership transfer processes. According to the central Swedish statistics bureau (Statistiska Centralbyrån, SCB) and the Labor Force Survey (Arbetskraftsundersökningar, AKU) approximately one of every four business owners in the country is between 55-64 years in 2007. These owners will retire and/or change activities within the firm in the near future. This situation represents a big challenge and potential problem for the Swedish industry and economy; there is also a lack of knowledge on the ownership transfer process. Such knowledge can help families to carry out a generational change in a successful manner. The figure below presents an outline description of the ownership situation in the Swedish family businesses.

Figure 1. Ownership situation in the Swedish family businesses

- Business owners confirm that a ownership transfer takes time, at least 3-5 years. However, after the abolition of inheritance and gift taxes in 2004, there are fewer incentives to transfer ownership. Companies do not need to do tax planning years in advance, and this can delay the transfer.
- The vast majority of first generation business owners has not started their ownership transfer process or has made only minor preparations for the ownership transfer.
- The accountant is the person that most businesses owners turn to for advice on their ownership transfer process.
- Retirement age is the main reason for ownership transfer. After the transfer, previous owners commonly retire completely or they work in a new role in the firm.
- It is most likely that the future owners of family businesses will be family members.
- The financial resources that are released with ownership transfer are used to: (1) support the family financially, (2) to save for the future and/or (3) for their own consumption. One in five owners wants to invest in other small businesses.
- Most business owners believe that an ownership transfer leads to company growth. Yet, it is a challenge to realize and sustain such growth potential.
- In case of selling the business to an outside buyer, the company is at risk of losing their current corporate culture or its strategic advantages.
- Fairness in an ownership transfer is perceived as the biggest challenge within the family and family business.
- The main barriers to ownership transfer are: (1) current owners perceive that their business is so funny that it feels wrong to stop, (2) it is emotionally difficult to leave the company even if the owner really wants it, (3) it is difficult to understand that it "is children's time", (4) "it is not possible to stop even if you want to", and (5) there are no children or external buyers who want to take over, and (6) we are concern for employees' future employment.

Source: *Nutek B 2004:6; 2007:2*.

4. Abolition of inheritance, gift and wealth taxes in Sweden

The abolition of inheritance, gift and wealth taxes was a key element of the Swedish policies that sought to support ownership transfer being carried out easily and effectively in family businesses. In December 2004, inheritance and gift taxes were abolished in Sweden (Ydstedt 2005). Elimination of these taxes would take place in January 2005, but due to the tsunami tragedy in Southeast Asia, the Swedish National Parliament (i.e., Riksskatteverket) decided to authorize the reform earlier. The government supported the families who would go through painful inheritances and thereby, ownership transfer processes as a result of the incident. The abolition of the wealth tax was authorized in 2007.

Various reports showed that before the reform the tax situation was less favorable in Sweden relative to other countries. According to the National Parliament, there was around €500 billion of undeclared savings that could be linked to these taxes. Companies and individuals moved this capital abroad to reduce tax consequences. The goal of abolition was to create "dynamic effects" for businesses and individuals in Sweden. The abolition would increase declared savings and thus generate tax revenue; it would also increase the availability of capital and thereby encourage investment and ease ownership transfers. Yet, one risk with the elimination of the gift, inheritance and wealth taxes is that a number of companies see less incentive to actively plan their transfer of ownership process. The Nutek study (B 2004:6) has already showed that a number of owners have not started any ownership plans, or only made minimal preparations for the transfer of ownership (e.g., consultations with their accountants).

5. Research methodology

This paper relies on a pilot study conducted through 30 telephone interviews with family business owners, and on five in-depth case studies of ownership transfer processes in family businesses.

5.1. Pilot study

64 companies were contacted in order to identify 30 suitable ownership transfer experiences in family businesses. Fifteen- to thirty-minute interviews were conducted via telephone. Interviews were held with majority-stake shareholders or the only shareholder in the family business over a period of five months. The selected companies are diverse in terms of size, age and industry. The pilot study helped us to better understand the fundamental aspects of ownership transfer after the abolition of inheritance, gift and wealth taxes.

5.2 In-depth study

We chose five companies that have transferred ownership (or are on-going) from the first to the second generation for our in-depth study. Ownership transfer from first to second generations may accentuate the challenges, problems and feelings of generational changes.

We conducted long interviews with the owners, managers, employees and advisors of five family firms. Each case emphasizes key identified aspects in the analysis (i.e., ownership stability, financial ownership, fairness, emotional associations and specialized knowledge). The following table summarizes the main features of our five cases.

Table 1. Summary of mains features of cases

Case	Founding year	Specialization	Ownership transfer process	No. of Family members within the firm	Roles of the family member within the firm	No. of family members not active in the family business
1 Ownership stability	1982	Logistic services	Concluded	3 persons; mother, father & son	CEO & chief financial officer	0
2 Financial ownership	1972	Metal tool production	Concluded	4 persons; father & 3 children	CEO, sales manager, production manager R&D manager, Inventory chief	1, mother
3 Fairness	1974	Catering, coffee, & event organizing	On-going	4 persons; mother, father & 2 children	CEOs, chief financial officer, production manager	1, son
4 Emotional associations	1973	Construction & transport industries	Not solved	4 persons; mother, father, son & daughter-in-law	CEO, chief financial officer, service manager & CEO	1, daughter
5 Specialized knowledge	1969	Greenhouse & garden center	Not solved	4 persons, father & 3 children	CEO, production manager machinery chief, inventory chief	0

6. Findings

This section presents on overview of the findings of the pilot study and the five in- depth case studies.

6.1 Overview of pilot study findings

The firms chosen in this study were all privately owned in Sweden. The 30 persons interviewed were all relatives (i.e., father, mother, child, or in-law) and had minimum shares of 25% in the family business. 28 persons were current CEOs, whereas two were previous company owners.

In the 30 companies of our study, 27 family businesses have carried out their ownership transfer process. In these 27 companies, there were ten different ownership solutions. These solutions combined components such as sales within the family, external sales to family and non-family members, gifts and inheritance. Gift was the main component of ownership solutions, as gifts were available in five out of ten solutions (i.e., 17 cases). Three companies did not have an ownership solution yet; their CEOs perceived no sense of urgency to transfer their ownership, as taxes had been abolished.

In the 30 interviewed companies, 13 owners had transferred their ownership to other members in the family by means of gifts, following the abolition of taxes. These owners transferred at least 20% of their shares. Overall, these 13 family-owned companies wanted to resolve ownership issues while there were no tax consequences. Two family members received the respective company via inheritance. Three solutions involved selling the entire company, or some share of the company, to external buyers. These families sold their companies because they did not have a family member that could take over. In four solutions, family members bought the respective company at market prices. These solutions were carried out in order to create financial stability for members of the older generation. In five solutions, family members bought the entire company, or some share of the company, at non-market prices. When these family members bought minority percentages of shares, their parents gave them complementary gifts of company shares. In the solutions where successors bought their shares, parents considered that children should not receive a company for free.

Ten out of the 30 interviewed companies will transfer ownership in the near future; five of these ten companies have already transferred small shares of ownership. Three of these ten companies have concretely started planning their ownership transfer and have discussed it with their accountants. Two companies will transfer their ownership by means of inheritance.

Parents are aware that ownership is a process that takes time. They also realize that ownership transfer is a process that requires specific knowledge. However, some of the pitfalls of this process are that companies do not know how and where to obtain the expertise needed to transfer their ownership. They often consider that they do not have enough help and advice from their consultants. Thus, some of the interviewed companies replace their consultants later in the process because they lack specific knowledge on corporate governance, ownership structures and taxes (i.e., combined legal and tax knowledge) and emotional aspects of ownership transfer. One of the most important concerns from parents was fairness; thereby, ownership solutions must create equal conditions for all parties involved. These solutions need to consider whether or not the children are working in the family business.

Ownership transfer gets delayed when parents do not want to step down and give away all or part of their ownership. Parents are not always prepared to seriously take in and rely on their children. One important challenge is that parents must take a new role in the company when they step down. Unresolved conflicts between parents and children, associated with ownership transfer, negatively influence the children's self-confidence as leaders and owners.

6.2 Overview of in-depth study findings

The five cases differ greatly with respect to the personal, social, economic, legal and tax aspects that are prominent in ownership transfer processes. They also differ in the interaction mechanism among family members and the emotions that affect decisions as wells in regards to the various technical aspects of the solutions. The cases highlight different solutions and ways to carry out the smoothest possible ownership transfer process. Three of these five cases provide successful examples of vital components in their ownership transfer solutions. The other two cases describe the variety of emotional, legal and structural problems that impede and/or delay ownership transfers and thus jeopardize the survival of the family businesses. As follows, we present a brief summary of our cases, emphasizing the most important aspects in each case (i.e., ownership stability, financial ownership, fairness, negative emotional associations and specialized knowledge).

7. Findings

Case 1: Ownership stability

This case illustrates how a family business creates ownership stability after one parent's death. The parent was the founder and CEO of the family business. The case points to the elements that existed or were developed in order to ensure the ownership transfer after the abolition of inheritance, gift and wealth taxes. Ownership stability facilitated everyday operations that in turn allowed the successor to implement an expansion strategy. Key elements in this case are shown in the figure below.

Figure 2. Key elements in the creation of ownership stability

- Ownership transfer took place gradually, i.e., a period of 8 years.
- After the CEO/founder passed away in 1995, the mother became CEO of the company and communicated her intentions to continue with company operations to customers and suppliers.
- Mother and son ensured that skilled employees remained at the company. The employees supported the new CEO, assumed more responsibilities and were awarded with increased salaries.
- A will ruled the first ownership transfer from father to mother and son in the 1990s.
- The mother let her son grow into the roles of CEO and owner. The son worked his way up in the company, allowing employees to teach him. He also gained employee recognition over time.
- Mother and son had good communication and an open relation between them. With time, mother and son developed different visions for the family business. The son became CEO and materialized his vision for the company (i.e., an expansion strategy). The mother remained as chief financial officer and has decreased her work load.
- In 2004, the mother gave away to her son 25% of company shares.
- The family received good support from their advisors and made suggestions on different ownership solutions. The new ownership structure incorporated and separated real estate and company operations into different holding companies.
- As the company started to grow, the family changed consultants. Gift was an important component in the gradual transfer of ownership; the mother and son shared equal ownership of the family business in 2007.
- The mother and son signed a family shareholder agreement in order to guarantee stability in future ownership transfers. This agreement considers that the grandchildren will inherit all shares in cases of sudden death of either mother or son.
- Together, the new ownership structure and the will have created stability for both the generational change and the decision-making.

Case 2: Financial stability

This case illustrates a family that transfers ownership from a father to his three sons after the abolition of inheritance, gift and wealth taxes. The family creates financial stability through an ownership solution that builds financial security for both parents and children. The ownership transfer solution includes paying compensation to the father; this compensation is financed with an international growth strategy. The children have no direct financial burden; rather, they concentrate their efforts on obtaining new international customers and improving operations locally. Key elements in this case are shown in the figure below.

Figure 3. Key elements in the creation of financial stability

- Preparatory work started in good time. The father/CEO wanted to prevent an external sell-out to non-family members; he wanted to consolidate the growth of the company and its survival. His children shared this view as well.
- The father/CEO was ready to step down and prepare the way for the younger generation. He integrated all his sons in the business. The father assumed the role of research and development manager and his oldest son became CEO.
- To prepare for the ownership transfer, the father trained his children as owners and leaders. Thus, the father and oldest son created a board of directors and asked each family member to formulate individual and company goals. Each family member formulated their goals in relation to other family members' goals and the company's situation.
- They found the "right" consultant to translate their goals, with respect to company ownership, international growth strategy and parents´ financial compensation. The consultant combined knowledge on law, accounting and taxes.
- The ownership solution included creating a holding company established with an internal sale of shares between the different companies. In order to finance this operation, the children are paying compensation to the father through company dividends for a period of two years. The father has in-turn paid compensation to the mother.
- The father and the children signed a family shareholder agreement in order to sustain healthy family relations. The agreement regulates situations such as the following: sudden death, divorce, conflicts, share prices, company valuation method, owner´s profiles, and sales and purchase of shares.
- Every child gradually felt that "this company is also mine and I am also contributing to its growth".
- The new ownership structure has the intention of creating future investment resources.

Case 3: Fairness

This is a case of a family firm where the ownership transfer process is gradually implemented to ensure fairness among all family members. With a fairness view, parents emphasize the creation of a balance of ownership among children. This family has three children; two of them have worked and developed the company and its services. The third child is currently working at another company but is interested in the future of the family business. In this case, there is still a risk of tension within the family as the third child might choose to work again within the company. Key elements in this case are shown in the figure below.

Figure 4. Key elements in the creation of fairness

- The parents planned a long-term ownership solution that would be implemented over ten years.
- Of their three children, two work in the company. The mother has tried to convince the younger son to join the company again. The younger son is working in a related, larger company and has not decided if he will work again in the family business.
- The parents have heard and closely experienced the conflicts over succession in family businesses. They want to avoid such conflicts.
- Both parents trained their two children as future CEOs and owners of the various companies.
- With the support of new consultants, the family created a holding company in 2000.
- When the new holding company was formed and the new functions of family members were assigned, the two children started discussing new ideas for the future of the company.
- The parents made a company valuation because the two children working for the company had already started contributing to the firm´s development. It is not fair to the two children if the third child benefits from something that he did not generate. The third child knows how much money he will be compensated.
- The mother and the father are gradually assigning more responsibilities to their children; the daughter became CEO of one company and the son of the other one. The parents retained economic control over the holding company. The mother is CEO of the holding company.
- In 2005, the two children who are active in the company received as a gift 49% of shares of the holding company.

Case 4: Negative emotional associations

This is an example of a family firm where ownership has not been transferred and the company´s growth has been seriously affected. The ownership transfer process has been prevented by unresolved conflicts, failure of communication and different visions among the older and younger generations. A lack of knowledge on ownership transfer has also impeded the accomplishment of the process. Many strong emotions have also contributed to the failure of the ownership transfer process. The father and son started the leadership transfer process. This case has several negative emotional associations to ownership that are shown in the figure below.

Figure 5. Negative emotional association to ownership

- The family started leadership and ownership transfer processes in the 1990s. The son studied and worked at a related company abroad. He married a foreign woman, whose family owns a company within the same industry.
- The son and his wife started working for the family business in 1989. The owner/CEO defined new functions for each family member. The father continued as CEO and the mother as chief financial officer.
- The parents did not expect that the son and his wife would want to change and improve the organization in so many ways (i.e., production, administration, product lines and customer relationships).
- The family did not create a board to discuss the suggested changes and the effects of such changes. The son and his wife felt misunderstood.
- The company went through a financial crisis. The family agreed to contribute with money in exchange of ownership in order to sustain operations. This decision included the daughter-in-law.
- The daughter built expectations as future owner of the company. In 1993 she realized that her in-laws were not prepared to transfer any share of ownership to her.
- The son and his wife felt disappointed and very upset this decision. The daughter-in-law started her own business in 1996; her decision increased tensions within the family. She had become a competitor.
- The parents tried several times to sign a family shareholder agreement; the son declined, as the parents kept control.
- In 2008, the parents gifted 37% ownership to the son. The parents kept control of the firm. They did not want to show the company finances to their son.
- The son and wife felt that they were not good enough. The parents did not want to step down because they had all their money invested in the company.

Case 5: Specialized knowledge

This is an example of a family business where leadership and ownership transfer has begun. The father is in the process of changing CEOs and has begun to prepare for transferring ownership. However, the family is in need of specialized knowledge. The company is currently discussing how to implement a strategic renewal and change roles and functions in connection with the ownership transfer. Leadership and ownership transfer processes are expected to be completed within five years. Key elements of a lack of specialized knowledge in this case are shown in the figure below.

Figure 6. Key elements of specialized knowledge

- The family business is integrated by two businesses: one business comprises operations and the other includes real estate.
- In 2003 the founder transferred 45% of ownership to his children. With this decision, he aimed at engaging his three children in the family business.
- The founder/CEO reflected on the skills that he needed to transfer to his children. He wanted to ensure that specialized knowledge stays within the family.
- Two of the children did not see themselves involved in office work, as they were not ready to sacrifice long hours.
- The abolition of taxes initiated the succession process. The decision about which of the three sons will be the next CEO has been considered by all family members.
- The middle child sees himself as potential CEO, and his father is currently training him on the different CEO responsibilities.
- The father does not know how to go about ownership transfer. He is still figuring out how to finance his retirement. He is unsure if the children should pay compensation to him. Yet, he can give away the remaining ownership share (i.e., 55%) if the children pay him a smaller salary.
- The family firm has no support from their accountant and is not even aware that they can ask for help. The father is sure that after the ownership transfer, he wants to do minor tasks within the company. The children are aware that all the children should compensate the father, but they do not know how to do it.
- The founder/CEO has not scheduled periodic board meetings. The children need to reflect on the future of the company and analyze alternative scenarios. The family is planning various organizational changes and discusses how to organize tasks and responsibilities between them.

8. Key lessons

To provide key business practices, we address our initial questions. *Has the tax reform enhanced ownership transfer?* The study shows that the abolition of gift, inheritance and wealth taxes motivates family businesses to work more actively and purposefully towards ownership transfers. This situation is particularly true in the cases in which companies had already started discussing ownership transfer within their family and/or with friends or consultants before the abolition of taxes was made. The abolition of taxes motivates families to go through an ownership transfer, partly because they can increase their wealth with significantly less tax consequences. Yet even if there are no gift, inheritance and wealth taxes, it is important that family businesses allow plenty of time to prepare and plan for ownership transfers. As follows, we discuss the key concepts in this study (i.e., ownership stability, financial stability, fairness, emotions and knowledge creation).

Ownership stability

When should an ownership transfer occur in order to create stability? There is no easy answer to this question. Perhaps it is better to focus on how companies can create ownership stability when carrying out their succession? Ownership stability is generated by gradually transferring ownership within the family business. To keep ownership within the family implies that the business professionalizes and develops. A gradual ownership transfer process signals that new owners are maturing; it is also a confirmation that the older generation trusts in the capacities of the newcomers. Older generations also progressively let go of their respective identities as owners. Ownership stability is created by the following: (1) establishing ownership transfer goals, (2) preparing children for ownership, and (3) activating a board of directors. In relation to goals, the older generation has to define the overall goals of the ownership transfer process, first for themselves and then in dialogue with children and consultants. To succeed in an ownership transfer process, families need to employ boards to plan their ownership transfers. The older generation can also utilize the board as a platform for forming owners. In particular, the younger generation needs to think about their lives as owners and entrepreneurs and their specific contributions in light of the ownership transfer process.

Financial Ownership

What does financial ownership mean to the overall succession in family businesses? Is it a mere technical – legal and tax-related - matter? Financial ownership requires that families reflect and make decisions on the following: (1) ownership solutions, (2) the group of owners and (3) gifts. The financial aspects of the ownership transfer include individual and business levels. Family members need to review their individual and company finances and decide on their contributions and investments. Good ownership solutions are built by considering ownership structure, tax regulations, gifts, owners involved and strategy renewal. Family businesses often establish a holding company that permits the creation of a structure for saving and investing money. This structure provides a financial base for compensating older generations and non-active family members.

However, w*ho then should be involved in an ownership transfer process?* The answer is willing parents, engaged children, and experienced consultants. All children might not wish to become owners, thus it is important to let those children find their own ways. When forming a group of owners, families need to think about synergy, personal chemistry, backgrounds and perspectives among family members. New owners infuse new energy, new skills and new ideas to the group of owners. Families can thereby re-organize their activities and functions in order to create joint visions and establish a new business strategy. However, there is a risk that a hierarchy emerges in the group of owners, formally or informally. Formally, when the parents retain relatively large shareholdings, there is a sort of formal power that influences discussions and decisions of the group. Informally, parents can still keep control over the business. For example, parents' views on important decisions are taken as crucial, despite the children's ideas and plans for business development. Gifts are more than a legal-economic transaction. Gifts are often used as a confirmation and a sign of increased legitimacy. Gifts are given to children because they demonstrate commitment and skills that the parents hope for. Children are rewarded when they work for a period as CEO or as a functional director. They are also rewarded when they are explicitly recognized by workers or when they improve the company's products/processes and/or when they create significant relationships.

Fairness

What are the alternative solutions for promoting a fair ownership transfer process? Every ownership transfer that involves more than one owner has the challenge of creating fairness among family members. Because ownership of the family business is linked to individual and family identities and their everyday work, it is important to determine who and how much each family member shall own and be compensated (e.g., parents that will no longer be owners, children that are not active in the company). *Should parents merely give away their business?* Not necessarily, as some families conduct a company valuation in order to determine the percentages of shareholdings and the price for the company. When the future owners will be family members, the current owners often determine a fair, non-market price for the company. This non-market price is used to establish the compensation amount for the current owners and non-active family members. There are families that choose to keep a market price for their business. At this point, parents must discuss openly the company's finances; children have the right to make an informed decision about their ownership stakes. Openly discussing the company's finances can facilitate the ownership transfer process in several ways, for example, it can create genuine respect for parents' work in the family business. Talking openly and freely about finances signifies trust among all involved and promotes children´s engagement in the development of the family business.

Should children buy the family firm? There are different ways to accomplish this process, and the ownership solution should create financial resources for compensating parents (or non-active family members). These financial resources are connected to a renewal strategy (i.e., expansion strategy, new product introduction, etc). This strategy must produce enough profits to pay compensations over time. If children focus on the new strategy, they will thereby consolidate the survival of the company across generation. However, a good renewal strategy does not occur per se; it requires good interaction within family members and strong motivation to manage and develop the company. Lastly, an important ingredient in fairness is the family shareholder agreement. When owners agree upon the content of the agreement, they establish a solid compromise with each other and the business.

Emotional associations to ownership

How can an ownership transfer process be achieved with professionalism and good emotions? An ownership transfer process is much more than an economic transaction, it is a process embedded in emotional associations to ownership. The emotional associations are the feelings that awaken engagement or disengagement in the ownership. Positive emotional associations become a driving force in the ownership transfer process. To build good emotional associations, new and former owners emphasize the importance of open dialogue, harmonious relations and respect for differences. Open dialogue, harmonious relations and respect for differences will help to keep a balance between professionalism and emotional associations with the business.

Can we avoid conflicts? No, conflicts can occur at all times. However, clear ownership goals, open dialogue and respect for differences will help families sustain harmonious relations during the transfer process. In some family businesses, the board of directors functions as the best communication channel for keeping an open dialogue among family members. In other families, informal communication channels are equally important (i.e., conversations over lunches or family dinners). Whether formal or informal, clear communication channels are a necessary and constructive arena for discussing emotional associations to ownership. *How does the older generation motivate the younger generation to become owners?* Children need to see opportunities for career development that are connected to their areas of interest and specialization. Emotional associations to the ownership of the family business are central; children need to identify with, and feel proud of, the family and family business.

Knowledge creation

How do we gather knowledge to integrate and implement a good ownership transfer solution? This study has chosen the ownership transfer process from first to second generations in order to emphasize that family businesses often do not have all the necessary knowledge to accomplish a transfer successfully. Yet, successful ownership transfer processes are featured by family businesses that actively engaged in finding and creating a base of specialized knowledge. If their current consultants cannot help them with their ownership transfer process, they ask among their acquaintances for recommendations on alternative consultants. Family business owners also hear stories on successful and failed cases from their acquaintances. The stories contain specialized knowledge that is easier to understand, appropriate and transfer. Thereby, the stories are further shared with family members in order to create awareness of and commitment to the family business. Family members discuss different aspects of the ownership transfer process. As the family business accounts for the family name, identity, wealth and stability, it is important to guarantee its survival.

9. Concluding remarks

The study illustrates that the tax reform fostered ownership transfer processes within family businesses. However, ownership transfer is a gradual process that is realized over a period of time. Companies in the study gradually transferred ownership, for at least five different reasons: (1) to minimize the tax consequences; (2) to cultivate children's identity as managers and owners; (3) to allow parents to step down gradually; (4) to set aside enough time to define roles and functions that fit each child and parent; and (5) to restore trust in the business when the transfer of ownership had been delayed. This gradual transferring of ownership "forced" and "helped" family members to think through and plan better their processes. The tax reform also confirmed that the Swedish government wanted to create better conditions for business development in Sweden.

Furthermore, this study identifies five key aspects related to the ownership transfer process – *ownership stability, financial stability, fairness, emotional associations, and knowledge creation*. These aspects confirm that the process of ownership transfer is more than a legal and tax-related matter; it is a multi-faceted process. Nevertheless, it is important to create awareness about the meanings and key aspects of the ownership transfer process with family businesses, consultants, banks and policymakers. Lack of specialized knowledge in ownership transfer is probably the most common reason why this process is prevented, delayed or carried out in an unsuccessful manner.

The process of ownership transfer is a central element in an overall succession. Succession includes also leadership transfer; leadership transfer is an equally important process. In a leadership transfer, the existing CEO transfers to the incoming CEO much more than silent and articulated knowledge. The new CEO must gain formal responsibility for operations and employees, as well as the moral responsibility for the company. In family businesses, the company is an extension of everything that the family represents and believes. Thus the CEO of the company is often much more than a leader of a company.

In family businesses, ownership results in a combination of new and former owners who gradually establish new forms of cooperation and jointly renew the corporate strategy. An important challenge is to engage children who contribute to business development with their energy, ideas and perspectives. Children often have to wait too long in order to become owners. Companies lose valuable time when children have to save enough money to buy the business. Policymakers may consider alternative ways to help family businesses release this energy and have children become business owners in good time. One limitation here is that the owners' identity is so closely tied to the company that they cannot see themselves without it. Thus, it is important to help former owners think differently. Owners can stay in the company with new roles and functions. Policymakers may narrow their agenda to change this situation. If the business owners succeed with the ownership transfer process, they can be proud to have created a business that will survive across generations.

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